

## Message Text

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PAGE 01 EC BRU 01531 131846Z

61

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02 SPC-03

STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01 SS-20

NSC-07 DRC-01 /136 W

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R 131707Z MAR 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 6573

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS UNN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS UNN

C O N F I D E N T I A L EC BRUSSELS 1531

PASS TREASURY, FRB, CEA

E.O. 11562: GDS

TAGS: EFIN, EC

SUBJ: EC COMETARY COMMITTEE MEETING MARCH 8--

GOLD AND RECYCLING

1. SUMMARY: THE MISSION HAS LEARNED FROM RELIABLE  
EC SOURCES THAT THE MONETARY COMMITTEE DISCUSSED THE  
ADVANTAGES AND DISADVANTAGES OF SEVERAL SOLUTIONS  
FOR USING GOLD IN INTERNATIONAL PAYMENTS. WHILE THE  
COMMITTEE DREW NO CONCLUSIONS, THE GROUP SEEMED TO  
RULE OUT THE FIXING OF A NEW GOLD PRICE AND GAVE  
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PAGE 02 EC BRU 01531 131846Z

CONSIDERABLE SUPPORT TO THE SOLUTION INVOLVING IMF

LOANS AGAINST GOLD AS COLLATERAL. THE COMMITTEE WILL TRY TO NARROW DOWN THE OPTIONS FURTHER AT ITS NEXT MEETING APRIL 4-5, AFTER A BRIEF DISCUSSION, THE COMMITTEE NOTED THAT THE RECYCLING PROBLEM WAS NO LONGER URGENT BUT THAT IT SHOULD CONTINUE TO BE STUDIED QUIETLY. END SUMMARY.

2. MOST OF THE MEETING WAS DEVOTED TO GOLD. THE DISCUSSIONS CENTERED AROUND THE FUNDAMENTAL PROBLEM OF HOW THE COMMUNITY COULD USE GOLD IN THE MOST ADVANTAGEOUS WAY IN MAKING SETTLEMENTS BOTH WITHIN THE COMMUNITY AND BETWEEN THE COMMUNITY AND THE OUTSIDE WORLD. IT WAS GENERALLY ACCEPTED THAT ANY SOLUTION SHOULD BE AS WIDE AS POSSIBLE GEOGRAPHICALLY AND THAT A PURELY REGIONAL APPROACH WOULD BE OF LITTLE USE IN ENABLING THE COMMUNITY TO PAY EXTERNAL DEBTS ARISING FROM THE HIGHER COST OF OIL IMPORTS.

3. ONE POSSIBILITY MENTIONED WAS THE SALE OF GOLD ON THE FREE MARKET. THIS SOLUTION WAS JUDGED UNSATISFACTORY TO CENTRAL BANKS DUE TO THE NARROWNESS OF THE MARKET AND, THUS, THE EFFECT THAT SUCH SALES WOULD HAVE ON THE GOLD PRICE. THE COMMUNITY ALSO CONSIDERED DIRECT CENTRAL BANK GOLD TRANSACTIONS AT MARKET-RELATED PRICES. IT WAS NOTED THAT SUCH TRANSACTIONS WOULD BE CONTRARY TO THE ARTICLES OF AGREEMENT OF THE IMF, ALTHOUGH THIS WAS NOT JUDGED A SERIOUS PROBLEM SINCE OTHER ARTICLES OF THE IMF ARE CURRENTLY BEING VIOLATED. THE VIEW WAS EXPRESSED THAT THIS PROBLEM COULD BE OVERCOME THROUGH A POLICY STATEMENT BY THE IMF RESULTING IN DE FACTO SUSPENSION OF ARTICLE IV, SECTION 2.

4. ON THE ASSUMPTION THAT CENTRAL BANKS WOULD BE UNWILLING TO BUY OR SELL GOLD ON THE FREE MARKET, ANOTHER OPTION CONSIDERED WAS THE USE OF GOLD AS COLLATERAL FOR LOANS GRANTED BY THE IMF. COUNTRIES DEPOSITING GOLD WITH THE IMF WOULD BE ISSUED A COUNTER-PART IN SDRS. IT WAS NOTED THAT SUCH A SOLUTION WOULD REQUIRE A DECISION ON THE VALUATION AND INTEREST RATE

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PAGE 03 EC BRU 01531 131846Z

OF THE SDR. ON BALANCE, THIS OPTION WAS JUDGED THE BEST OF THOSE CONSIDERED.

5. A VARIATION ON THE IMF OPTION WOULD BE THE ISSUANCE BY THE EUROPEAN MONETARY COOPERATION FUND OF EUROPEAN UNITS OF ACCOUNT AGAINST GOLD DEPOSITS (1 UAC EQUALS \$1.2063). ANY COUNTRY WISHING TO COULD DEPOSIT GOLD WITH THE FUND. THIS OPTION, HOWEVER, WOULD IMPLY

MAJOR DECISIONS ABOUT RESERVE POOLING WITHIN THE COMMUNITY AS WELL AS THE ROLE AND VALUATION OF THE UNIT OF ACCOUNT, WHICH IS CURRENTLY MERELY AN ACCOUNTING DEVICE. WHAT WOULD BE THE UAC'S VALUE IN RELATION TO GOLD AND OTHER CURRENCIES? WOULD THE UAC BECOME A RESERVE CURRENCY? ASSUMING THE FUND COULD ISSUE UACS AGAINST GOLD ONLY, WOULD IT HAVE TO SELL GOLD ON THE FREE MARKET IF THE ENTIRE COMMUNITY WAS IN DEFICIT? THE COMMITTEE GENERALLY THOUGHT THIS OPTION LESS ATTRACTIVE THAN THE ONE INVOLVING THE IMF.

6. ANOTHER POSSIBILITY DISCUSSED WAS AGREEMENT BY CENTRAL BANKS TO ABSTAIN FROM SELLING GOLD BELOW A CERTAIN PRICE OR PURCHASING IT ABOVE A CERTAIN PRICE. BETWEEN THE TWO PRICES. GOLD WOULD FLUCTUATE ACCORDING TO MARKET FORCES. SUCH AN ARRANGEMENT BY ALLOWING USE OF GOLD IN TRANSACTIONS WITH THIRD COUNTRIES WITHOUT ITS USE BEING OBLIGATORY IN INTRA-EC PAYMENTS--PRESUMABLY ITS FLUCTUATING VALUE WOULD MAKE IT AN UNSATISFACTORY MEANS OF SETTLEMENT WITHIN THE EC, THOUGH THIS POINT IS UNCLEAR. INTRA-COMMUNITY SETTLEMENTS WOULD BE IN DOLLARS, AND THE DOLLAR WOULD AGAIN BECOME THE INTERVENTION CURRENCY. COUNTRIES WITH FLOATING CURRENCIES WOULD THUS BE ABLE TO PARTICIPATE IN THE EC'S MONETARY ARRANGEMENTS WITHOUT THE OBLIGATION TO SETTLE IN GOLD OR GOLD-RELATED ASSETS. AT THE SAME TIME, THE COMMITTEE FULLY RECOGNIZED THAT THIS OPTION RAISED THE QUESTION OF THE NEED FOR OBLIGATORY INTERVENTION TO KEEP GOLD WITHIN THE AGREED MARGIN. THERE WOULD HAVE TO BE RULES FOR SUCH INTERVENTION, AND THESE WOULD HAVE TO BE KEPT SECRET. AT THE LIMIT THIS OPTION WOULD APPROXIMATE RESTORATION OF THE GOLD POOL AND A FIXED PRICE FOR GOLD, BOTH OF WHICH WERE RULED OUT.

CONFIDENTIAL

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PAGE 04 EC BRU 01531 131846Z

7. THE ATTITUDES OF INDIVIDUAL MEMBER STATES WERE ALONG FAMILIAR LINES. MOST INTERESTED IN FINDING A SOLUTION WERE FRANCE AND ITALY, BELGIUM TO A LESSER EXTENT, WITH DENMARK MILDLY INTERESTED. THE GERMANS INDICATED GENERAL RELUCTANCE TO CEDE DOLLARS FOR GOLD. OUR SOURCES SAID THE FRG, WITH NO BALANCE OF PAYMENTS PROBLEMS AT PRESENT, WAS PROBABLY WORRIED ABOUT THE INFLATIONARY EFFECT OF A GENERALIZED REVALUATION OF WORLD GOLD RESERVES. THE GERMANS ALSO MIGHT NOT WISH TO BE OBLIGED TO BUY GOLD UNDER CERTAIN CIRCUMSTANCES, PRESUMABLY BECAUSE THEY HAVE DOUBTS ABOUT ITS LONG-TERM VALUE. ACCORDING TO OUR SOURCES, HOWEVER, THEY WOULD NOT OPPOSE A BROAD EC ARRANGEMENT IN AN INTERNATIONAL CONTEXT.

8. THE OPTIONS DISCUSSED BY THE MONETARY COMMITTEE WILL BE FURTHER NARROWED DOWN FOR THE COMMITTEE'S NEXT MEETING APRIL 4-5. IN THE MEANTIME, THE COMMITTEE EXPECTS THE DISCUSSIONS TO BE PRUSED AT THE WORKING LEVEL WITH THE IMF.

9. RECYCLING. THE COMMITTEE DISCUSSED BRIEFLY THE QUESTION OF RECYCLING FUNDS ACCUMLATED BY OIL PRODUCERS. IT WAS GENERALLY BELIEVED THAT THE PROBLEM WAS NO LONGER URGENT--PRIMARILY BECAUSE SOME COUNTRIES HAD ALREADY HELPED THEMSELVES IN THE MARKET, WHICH SO FAR HAD STOOD THE TEST. IT WAS ALSO NOTIED THAT BANKS, THROUGH THEIR INFORMAL CONTACTS, HAD ARRANGED IN PRACTICE A QUEUING UP OF BORROWERS, SO THAT RATES HAD REMAINED RELATIVELY STABLE. FOR CONTINGENCY PRUPOSES, HOWEVER, THE COMMITTEE AGREED THAT SOME SORT OF EUROPEAN ARRANGEMENT INVOLVING BORROWING VIA THE MONETARY CO  
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## Message Attributes

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